



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson  
Director*

## MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, March 16, 2012  
8:30 A.M., MST

The Arizona State Retirement System (ASRS) Board met in the 10<sup>th</sup> Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. David Byers, Chair of the ASRS Board, called the meeting to order at 8:32 A.M., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

### 1. Call to Order; Roll Call; Opening Remarks

Present: Mr. David Byers, Chair  
Mr. Tom Manos, Vice-chair  
Mr. Tom Connelly (via teleconference)  
Mr. Chris Harris  
Professor Dennis Hoffman  
Mr. Kevin McCarthy  
Mr. Steve Zeman

Absent: Mr. Michael Townsend

A quorum was present for the purpose of conducting business.

### 2. Approval of the Minutes of the February 17, 2012 Public Meeting and Executive Session of the ASRS Board

**Motion:** Mr. Steve Zeman moved to approve the minutes of the February 17, 2012 Public Meeting and Executive Session of the ASRS Board. Mr. Chris Harris seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

### 3. Presentation, Discussion and Appropriate Action Regarding the 2012 Legislative Session

Mr. Pat Klein, Assistant Director, External Affairs, introduced Ms. Lesli Sorensen, Government Relations Officer, who addressed the Board regarding the ASRS 2012 legislative initiatives and legislative proposals by other organizations that affect the ASRS. Ms. Sorensen presented the bill tracker, dated March 15, 2012, summarizing ASRS 2012 legislative initiatives.

#### **4. Presentation, Discussion and Appropriate Action Regarding Appeal Rights with Respect to the Contribution Rate Split Judgment**

Mr. Paul Matson, Director, addressed the Board regarding appeal rights with respect to the contribution rate split judgment, summarizing the background. In 2011, SB 1614 amended the ASRS retirement and long-term disability contribution rate split from employer-employee 50%-50% to 47%-53% effective July 1, 2011. On February 1, 2012, the Judge determined the retirement contribution rate split could not be amended for current ASRS members. On February 13, 2012, Plaintiffs' Counsel filed an Application for Attorneys' Fees. Once there has been an Entry of Judgment by the Superior Court, the Defendants will have thirty days to appeal. Both the State of Arizona and the ASRS each have a right to appeal. The implications of an appeal include an extended time frame and the legal precedent being created, in addition to a possibly different legal outcome.

Since the deadline to appeal attorney fees was March 16, 2012, the Director personally notified Trustees via email of the Director's pending decision, which was to appeal the Attorneys' Fees in order to:

- a. Minimize the probability the ASRS will be assessed 100% of the fees
- b. Provide a uniform state response.

Mr. Matson explained the remaining option available to the Board which is whether or not to appeal the contribution rate split judgment. The Director recommended the Board wait to see what the Governor's position will be before deciding whether to appeal or not appeal. This decision is likely to be required over approximately the next 40 days. The Board could delegate the decision to the Director.

Trustees discussed the options and timing of possible decisions. They could delegate a decision to the Director, the Director and the Board Chair, or they could hold an ad hoc Board meeting. Ms. Jothi Beljan, Assistant Attorney General, noted an Entry of Judgment is anticipated to occur on approximately April 1, 2012. Trustees felt it would be best to wait for the final Judgment and Executive Branch decision prior to making a decision.

#### **5. Presentation, Discussion and Appropriate Action Regarding the ASRS Employee Policy Manual**

Ms. Martha Rozen, Chief of Administrative Services, introduced Ms. Tracy Darmer, Human Resources Manager, who provided the Board with a brief update on the ASRS Employee Policy Manual that was presented to and reviewed by the Operations Committee on February 23, 2012.

Mr. Matson said the manual was only being presented for Trustees' information because HB2571, the Governor's Personnel Reform Bill, may include the ASRS and therefore significantly change the components and relevance of the Employee Manual. ASRS employees were exempted from the state personnel management system when legislation amending A.R.S. § 38-715.F was passed in 2009; HB2571 would change that.

Mr. Matson explained the ASRS reviewed existing state and ASRS personnel-related policies during the past two years and revised them, as appropriate, to apply to the ASRS, in a manner that best serves in the administration of the retirement system. ASRS Human Resources completed a systematic analysis of each policy and revised ASRS and relevant ADOA policies, primarily in format, style, and clarifying language, and compiled them into one ASRS Employee Policy Manual. Draft versions of the manual were reviewed by ASRS executive and senior management, a few program managers, and the Assistant Attorney General who specializes in Employment Law from the Office of the Attorney General.

Mr. Matson highlighted a few of the policy provisions where the ASRS differs from ADOA.

Discussion ensued. Trustees noted the ASRS differs from other state agencies because the ASRS must prudently invest and account for billions of dollars to ensure sufficient funds will be available to pay future retirement benefits and must make sure certain processes, including capable staff and services, are in place to disseminate retirement benefits in a timely and accurate manner.

Several Trustees pointed out, in the past, the constraints of the state's personnel system, including the approval process for high-level positions and hiring freezes, hindered the ability of the ASRS to make operational decisions that were solely in the best interest of members. Not being under the state personnel system allows the ASRS to implement practices that would enable the ASRS to recruit and retain a highly educated, specialized, and professional staff to meet that duty.

**Motion:** Mr. Steve Zeman moved to postpone further action on the ASRS Employee Policy Manual until the final version of the Governor's Personnel Reform Bill has been signed into law. Mr. Tom Manos seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

## **6. Presentation, Discussion and Appropriate Action Regarding the ASRS Total Fund Performance Review for the Period Ending 12/31/11**

Mr. Gary Dokes, Chief Investment Officer; Mr. David Underwood, Assistant Chief Investment Officer; Mr. Allan Martin, Partner, NEPC; and Mr. Dan LeBeau, Senior Analyst, NEPC, addressed the Board regarding the Total Fund Performance Overview for the period ending December 31, 2011, highlighting specific areas of interest and concern.

The Total Fund Performance for the period ending December 31, 2011 is:

	Quarter	1 Year	3 Years	5 Years	10 Years	Since Inception (6/30/75)
Total Fund	5.9%	1.0%	12.1%	1.9%	5.0%	9.7%
Interim SAA Policy	5.7%	0.3%	11.6%	1.7%	4.7%	9.5%
Excess Return	0.2%	0.7%	0.5%	0.2%	0.3%	0.2%

\*Interim SAA Policy: 31% S&P 500, 6% S&P 400, 6% S&P 600, 13% MSCI EAFE, 2% MSCI EAFE Small Cap, 3% MSCI Emerging Markets, 24% Barclays Capital Aggregate, 2% Barclays Capital High Yield, 6% NCREIF ODCE (lagged one quarter), 4% Russell 2000 (lagged one quarter), 3% Dow Jones/UBS Commodities Index.

Note: Interim SAA Policy includes a proration of 3% Private Equity, which is unfunded. Private Equity was prorated to domestic equity.

## **7. Presentation, Discussion and Appropriate Action Regarding the ASRS U.S. and International Equity Asset Class Review**

Mr. Dokes, Mr. Underwood, Mr. Martin, and Mr. LeBeau addressed the Board regarding the U.S. and International Equity asset class reporting for quarter ending December 31, 2011. Mr. Dokes noted that as of December 31, 2011:

- The total market value of the ASRS U.S. Equity Asset Class (excluding Global Tactical Asset Allocation (GTAA)), was approximately \$10.3 billion.
- ASRS U.S. Equity Asset Class historical performance underperformed its aggregate benchmark for one year (-0.6%) and outperformed for three, five and ten years (+0.6%, +0.4% and +0.7%, respectively). On an inception-to-date basis, underperformed its aggregate benchmark by 0.10%.
- The total market value of the ASRS International Equity Asset Class (excluding GTAA), was approximately \$4.0 billion.
- ASRS International Equity Asset Class historical performance matched its aggregate benchmark for one year and underperformed for three, five and ten years (-2.1%, -1.0% and -1.0%, respectively). On an inception-to-date basis, outperformed its aggregate benchmark by 0.40%.

Equity performance was discussed, as well as ASRS/NEPC's perspectives on the current equity environment and the ASRS equity portfolios' repositioning, rebalancings and transitions that occurred in 2011.

Mr. Chris Harris requested a presentation be made at the Investment Committee regarding the internally managed portfolios.

#### **8. Presentation, Discussion and Appropriate Action Regarding the Director's Report as well as Current Events**

Mr. Matson presented the Director's Report. He noted the amount of employer delinquencies had fallen from \$133,935 to \$43,735 since Board materials were published.

#### **9. Presentation and Discussion with Respect to Informational Updates from the Operations Committee Meeting on February 23, 2012**

Mr. Steve Zeman, Chair, Operations Committee (OC), provided an update on the February 23, 2012 OC meeting. Mr. Zeman discussed:

- a. ASRS Employee Policy Manual
- b. Review of a Charter School Study
- c. ASRS Employer Compliance Action Plan
- d. Update on Social Security Death Reports
- e. ASRS Information Technology Strategic Initiatives Including Legislative Impacts
- f. ASRS Continuity of Operations Plan
- g. Recently Conducted Audits
- h. Internal Audit Quarterly Update

Mr. Zeman said the next OC meeting will take place April 26, 2012.

#### **10. Presentation and Discussion with Respect to Informational Updates from the External Affairs Committee Meeting on March 2, 2012**

Mr. Klein provided an update on the March 2, 2012 External Affairs Committee (EAC) meeting. He noted 2012 Legislation had been discussed earlier during the Board meeting. Mr. Klein said the next EAC meeting will take place April 6, 2012.

**11. Presentation and Discussion with Respect to Informational Updates Regarding Investment Management Activities**

Mr. Tom Connelly, Chair, Investment Committee (IC), introduced the topic, noting there would be a Director's Asset Class Private Markets Committee meeting later on March 16, and on March 22. Mr. Dokes provided an update on recent Investment Management activities, including the ASRS Asset Allocation Study and Private Markets Committee meetings. The next Investment Committee meeting will take place April 16, 2012.

**12. New Agenda Items**

No requests were made.

**13. Call to the Public**

No members of the public requested to speak.

**14. The next ASRS Board meeting is scheduled for Friday, April 20, 2012, at 8:30 A.M., at 3300 N. Central Avenue, 10<sup>th</sup> Floor Board room, Phoenix, Arizona.**

**15. Adjournment of the ASRS Board**

Mr. Byers adjourned the Board meeting at 11:08 A.M.

ARIZONA STATE RETIREMENT SYSTEM

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Lisa Maddox  
Board Secretary

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Date

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Paul Matson  
Director

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Date